DOCUMENT RESUME

ED 370 286 EC 303 017

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TITLE	Federal Policy Options for Funding Special Education. Brief No. 1.
INSTITUTION	American Institutes for Research in the Behavioral Sciences, Palo Alto, CA. Center for Special Education Finance.
SPONS AGENCY	Special Education Programs (ED/OSERS), Washington, DC.
PUB DATE	93
CONTRACT	H159G20002
NOTE	5p.
PUB TYPE	Information Analyses (070)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Categorical Aid; Delivery Systems; *Disabilities; Disability Identification; *Educational Economics; *Educational Policy; Elementary Secondary Education; Federal Aid; *Financial Support; Legal Responsibility; Noncategorical Education; Policy Analysis; Policy Formation; Regular and Special Education Relationship; School Restructuring; *Special Education; *Special Needs Students
IDENTIFIERS	Individuals with Disabilities Education Act

ABSTRACT

This policy brief addresses the issue of issue of whether or not current federal funding policy under the Individuals with Disabilities Education Act (IDEA) should be changed from an identification system to an overall population-based system. The current federal funding policy is described, in the context of the legislative history of IDEA. Arguments for change include: working outside special education is more cost-effective; some students may be better served outside special education; over-identification is now a major issue; and procedural safeguards would remain in place with a population-based system. Arguments against change include: the system would not be fair to states and districts with higher incidence rates; procedural safeguards cannot be maintained if students are not identified; a retreat from the traditional federal role of fostering and promoting special education services would occur; fiscal accountability would be jeopardized; and current levels of special education funding would be threatened. Implementation issues are also addressed. Among these are whether or not the expenditure of funds should be limited and whether states and districts should be "held harmless." Other adjustments to federal funding policy considered are cost-based adjustments and need-based adjustments. The paper proposes that selected states be granted waivers when making specific reform efforts. (Contains 11 references.) (DB)

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CSEF brief

Center for Special Education Finance Brief No. 1993

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Federal Policy Options for Funding Special Education

by Thomas B. Parrish, Co-Director, CSEF

Abstract

This policy brief addresses whether current federal funding policy under IDEA should be changed from an identification- to an overall population-based system. The current federal funding policy is described in the context of the legislative history of IDEA. The author outlines arguments for and against changing the current federal funding policy, as well as implementation issues that need to be addressed.

Overview of Federal Funding Policy

Current policy. A key component of the Individuals with Disabilities Education Act (IDEA) is a state grant-in-aid program, which requires participating states to furnish all children with disabilities a free, appropriate public education in the least restrictive setting. Part B funds are allocated among the states based on their number of children with disabilities, ages 3 through 21. The formula provides that states may receive up to 40 percent of the national average expenditure for all pupils (APPE) for each child with a disability. In fact, federal allocations have never come close to meeting this 40 percent goal. It is estimated that federal funding under IDEA will equal 8.79 percent of the APPE in 1994. The total Part B appropriation for the 1993–94 school year is estimated at $2.0527 billion, with a FY 1995 request of $2.1637 billion.

Relevant history. In 1975, in extensive hearings to extend and amend the Education of the Handicapped Amendments of 1974 (P.L. 93–380), testimony indicated that a large percentage of children with disabilities remained unserved or underserved across the states, often due to state financial constraints. Statistics provided by the Bureau of Education for the Handicapped estimated that of the more than 8 million children (between birth and 21 years) with disability conditions requiring special education and related services, only half (3.9 million) were receiving an appropriate education; 1.75 million children with disabilities—usually those with the most severe disabilities—were receiving no education at all; and 2.5 million children with disabilities were receiving an inappropriate education (U. S. Senate, *The Education of the Handicapped Act*).

Passage of the Education for All Handicapped Children's Act (P.L. 94–142) in 1975 amended the provisions for state assistance under Part B of the Education of the Handicapped Act (EHA, P.L. 91–230) and expanded the Part B program into a multi-billion dollar federal commitment to assist state and local education agencies to provide appropriate education services for children with disabilities.

The new formula enacted under P.L. 94–142 was a significant shift from the way funds previously had been distributed to a state under the EHA, *which had based allocations to states on the number of all children* (i.e., population), ages three to twenty-one within a state, times $8.75 per child. The Senate Committee on Labor and Public Welfare stated that it "believes the simple 'pass-through' of funds based solely on the population of the local educational agency fails to provide an adequate incentive for serving all children . . . ." (U. S. Senate, *The Education of the Handicapped Act*).

Concerns about current policy. CSEF recently polled all 50 states to assess, among other things, their perspective on federal funding policy. By far, the states' greatest concern is the failure to meet the early promises of federal support under IDEA. However, a limited number of states also expressed concern that current federal funding provisions run counter to reform efforts.

Although these reforms tend to be multifaceted, one common aspect tends to be a reduction in the number of students identified for special education services. This has been accomplished through interventions such as utilizing special education resources in regular education classrooms, allocating resources for prereferral services, and severing the tie between

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state special education funding and the number of students identified for special education services.

These reform states feel that this reduction in the count of special education students is a change for the better. They argue that they are often serving a broader range of students with special learning needs in a less restrictive and more appropriate manner. They contend that identification for special education services should be avoided when possible. They believe that once students enter special education, they never get out; that the system itself can be debilitating for students by casting a stigma on them and by limiting and shaping their educational options; and therefore, that many students can better and more efficiently be served outside the formal special education system.

Because the IDEA allocation is a flat-grant formula based *on the number of students identified* for special education services (up to 12%), states that are finding ways to serve certain special need students outside of the formal special education system are *losing* federal funds. One state director argued that "according to the USDE report, *Patterns in Special Education Service Delivery and Cost*, the cost of the assessment to determine eligibility for special education is $1,206. Assessment is an exercise with little or no instructional benefit, and it is conceivable that states actually lose money by participating in the federal entitlement for special education..." (Tucker, 1993).

The major issue to be addressed in this brief is whether the federal funding allocation system under IDEA should be changed from an identification-based system to one that is more neutral on the issue of the identification of special education students. For example, a funding system might be based on the count of *all* students in a state. Such a policy would sever the relationship between the funding received and the number of students identified. It assumes that the actual need for special education services is fairly constant across districts and across the states.

Arguments For Change

The change in federal policy being proposed is essentially a return to the way funds were previously distributed under the EHA, which based allocations to states on the number of all children (i.e., the population of all students ages three to twenty-one). What are the arguments supporting this type of change in federal policy?

■ **Working outside special education is more cost-effective.** At the same time that the number of students needing supplemental educational services appears to be growing, there is increasing competition for public funds and growing signs of fiscal stress among public agencies at all levels.

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The special education process is costly. Two separate studies showed that only about 62 percent of the special education dollar at the local level went to direct special education instructional services (Moore, Strang, Schwartz, and Braddock, 1988; Shields, Jay, Parrish, and Padilla, 1989). For students with mild disabilities in resource room programs, an average of 22 percent of all funds for special education services was spent on assessment and 15 percent on special education program administration (Shields, et al., 1989). Concerns about the cost-effectiveness of assessment practices are raised by the number of studies finding that the tests and methods used to classify students for special education services do not provide information that resource specialists or regular teachers report to be of use in developing instructional programs for these students (Lovitt, 1967; Shepard and Smith, 1981; Ysseldyke, Algozzine, Richey, and Graden, 1982).

■ **Some students will be better served outside special education.** In addition to cost savings, there are other important reasons to serve students outside special education when possible. Regardless of the label assigned to the student, special education programs, by their very nature, tend to isolate students and to lead to more restrictive services. Affiliation with special education tends to have a negative connotation for students that stays with them throughout their schooling, and perhaps throughout their lives. Once students are identified, they tend to stay in special education programs. The programs do not seem oriented to short-term interventions that return students to regular education status in a relatively brief period of time.

■ **Over-identification is now the major issue.** When federal special education funding shifted from a population-based system to a special education pupil count system in 1975, it was estimated that large segments of the special education population were being underserved. However, a number of policymakers argue that the resultant funding system developed for special education services created incentives to *over*-identify students, and that this, rather than *under*-identification is now the major concern.

■ **Procedural safeguards would remain in place.** Movement to a population-based, rather than an identified student-based, funding system would not jeopardize any of the procedural safeguards under current law. While the number of students with mild disabling conditions (e.g., learning

disabilities) would be expected to diminish under such a system, the more clearly identifiable students, for whom IDEA was primarily intended, should be largely unaffected by such a change.

Arguments Against Change

Some special education advocates argue against such a change in federal policy. Some of the positions they express are as follows:

- **The system would not be fair to states and districts with higher incidence rates.** A population-based funding system assumes comparable incidence rates of special education students across states and districts. States and LEAs with greater numbers of special education students would tend to lose federal support under a population-based funding system. Districts might have higher percentages of special education students because of differences in the characteristics of the students they enroll and because they have been especially proactive in identifying the needs of, and setting up programs for, special needs students. A population-based funding system would financially penalize those very districts that have been most responsive to the state and federal call to fully identify and serve special education students.
- **Procedural safeguards cannot be maintained if students are not identified.** The foundation for the whole system of procedural safeguards that has been established for special education students is identification and assessment. Students cannot be protected under the law unless they are singled out and identified.
- **A retreat from the traditional federal role of fostering and promoting special education services would occur.** The traditional federal role in special education has been one of leadership and protection of students with special needs. A return to a population-based funding system would send a message to states and communities that the federal government is backing away from this position.
- **Fiscal accountability would be jeopardized.** Because the generation of funds is not based on the number of students identified, the link between funding and the cost of services is weakened. This appears to detract from fiscal accountability considerations at a time when such controls are seen as increasingly important by taxpayers.
- **Current levels of special education funding would be threatened.** Traditional levels of support for special education services would be likely to diminish when they no longer can be attributed to specific special education students with legal entitlements. Overall funding for special education services could erode over time.

Implementation Issues

If the federal allocation formula under IDEA were to be changed to a population-based system, what are the most important implementation issues?

- **Should the expenditure of funds be limited?** Current policy requires that federal funds allocated under IDEA only be spent on the special education students who generate them. Under a population-based funding system, could federal dollars from IDEA be spent on all students, all students with remedial education needs, or only on special education students? State policies regarding the use of state special education funds vary considerably from state to state. However, a number of the states require that these funds be spent exclusively on special education students. This is important because if special education funds cannot be spent on other students with learning difficulties, it still may be necessary for LEAs to identify students as special education to provide the special assistance they require.

Perhaps the most important role for federal funding policy is the example it sets. The states may look to the federal government for guidance in the types of incentives and disincentives that state policy should be attempting to foster. Federal policy is more likely to affect local practice by the example it sets for state fiscal policy than through the limited financial leverage it wields.

- **Should states and districts be "held harmless"?** States and LEAs will need time to adjust to any new federal policy direction, and to avoid financial hardship and the possible loss of services if they have traditionally identified relatively large percentages of students with special needs. Thus, it may be desirable to phase in any revised federal funding policy in a way that will ensure that LEAs do not lose funds from their prior year's allocation.

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Other Alterations to Federal Funding Policy

Cost-based adjustments. Just as there are differences in the cost of living, the costs of providing educational services are higher in some states and communities than in others. Equal dollar allocations result in differential levels of educational resources in high versus low cost areas. Some form of resource cost adjustment

might be incorporated into the federal funding formula as a way to enhance overall equity.

Need-based adjustments. It has long been argued in the literature that there is a considerable subjective component to the identification and assessment of students with mild disabilities (Ysseldyke, et al., 1982; Shinn, Tindal, Spira, Marston, 1987; Gerber and Semmel, 1985). Thus, it is not clear whether LEAs with a higher incidence of special education students have more acute needs for special education services or whether they simply employ more liberal standards for program admission. If work were done linking predicted incidence to certain conditions known to place students at risk (e.g., low nutritional standards, poverty), it might be possible to derive more objective criteria for adjusting federal special education funding to varying levels of student need. However, this type of approach would rely on complex analyses, and any adjustment of this type would likely be subject to considerable disagreement.

Conclusion

Many of the arguments in favor and opposed to changing federal policy are compelling. In light of the seriousness of these concerns in this era of escalating educational needs and dwindling public resources, a global change in policy may be premature. On the other hand, it would seem counter to the federal interest to discourage well planned state reforms designed to increase the efficiency of services to students with special needs.

A more tentative approach might be to grant waivers to selected states making specific reform efforts. On a trial basis, states might be "held harmless" as they allowed their special education enrollments to drop after federal approval of a well-defined state plan to serve a broader base of students with special learning needs outside the context of formal special education. Such a program could be closely monitored to assess the impact on students still identified as special education, as well as all other students with special learning requirements.

CSEF Briefs will be published periodically by the Center for Special Education Finance (CSEF) at the American Institutes for Research (AIR) in Palo Alto, CA. CSEF is funded by the Office of Special Education Programs (OSEP), U.S. Department of Education, under a five-year cooperative agreement #H159G20002. The opinions expressed in this brief are those of CSEF and do not necessarily reflect the views of the U.S. Department of Education or our network of advisors and professional organizations. Please feel free to photocopy and distribute this brief.

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